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PEPSI-COLA COMPANY ANNUAL REPORT 1959

Annual Meeting

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at two o'clock in the afternoon, on Wednesday, May 4, 1960. A proxy and a proxy statement will be mailed to you shortly.

Board of Directors

Herbert L. Barnet	Christopher E. Holzworth
Charles Allen, Jr.	Milward W. Martin
James W. Carkner	J. Lincoln Morris
Sheldon R. Coons	Emmett R. O'Connell
James Felt	Dr. Louis A. Rezzonico
Harry E. Gould	Joan Crawford Steele
Mortimer Hays	George C. Textor

Officers

Herbert L. Barnet, *President and Chief Executive Officer*
Emmett R. O'Connell, *Executive Vice-President*
Milward W. Martin, *Senior Vice-President and Secretary*
Louis E. Nufer, *Senior Vice-President and Treasurer*
Thomas Elmezzi, *Senior Vice-President, Manufacturing*

VICE-PRESIDENTS

Charles N. Baker, *Promotion*
John L. Bate, *Western Division*
D. Mitchell Cox, *Public Relations*
Roy L. Dossin
William C. Durkee, *Marketing*
Stephen L. Galvin, *Director of Research*
Eugene B. Gilbert, *Southern Division*
Stephen J. Gullo, *Technical Services*
Philip B. Hinerfeld, *Advertising*
Marc A. Lefebvre, *Eastern Division*
Seymour Lusterman, *Market Research*
Henry E. McGovern, *Equipment*
Raymond D. Mock, *Central Division*
Neil A. Morrison, *Plant Design and Engineering*
Carl B. Salts
John A. Schiffman
John J. Soughan, *Marketing Services*
A. Allen Thomson, *Sugar Division*
Adolph Krieger, Jr., *Controller*
Donald M. Kendall,
President of Pepsi-Cola International, Ltd.
Philip Rubenstein,
President of Pepsi-Cola Metropolitan Bottling Company, Inc.
Frank W. McIntosh,
President of Pepsi-Cola Company of Canada, Ltd.

Transfer Agents

The Marine Midland Trust Company of New York
The First National Bank of Jersey City
Harris Trust and Savings Bank (Chicago, Illinois)

Registrars

The Chase Manhattan Bank, New York
The First National Bank of Chicago

Counsel

Hays, Podell, Algase, Crum and Feuer
General Counsel to Pepsi-Cola Company
Seligson, Morris and Neuburger
General Counsel to
Pepsi-Cola Metropolitan Bottling Company, Inc.



To the stockholders of Pepsi-Cola Company:

During 1959, sales and profits exceeded all previous records in your Company's history. This was our tenth consecutive year of uninterrupted growth. In those ten years beginning with 1950, Pepsi-Cola sales have increased approximately five times as much as those of the rest of the industry, a total increase over 1950 of 182 per cent. Our growth has been such that case sales in December of 1959 were greater than those of the traditional peak sales months of July or August for 1954.

We refined our marketing themes, developed new ideas, plans, and eye-catching equipment for introduction in early 1960, and broadened and intensified our marketing activities on all fronts.

In 1959 we introduced a new product—TEEM—with a lemon-lime flavor, and by year's end were selling it in over 20 franchised areas.

By acquisition of the bottling properties which serve 90 per cent of the population of the state of Michigan, we extended the sources of our income for this and future years.

Through a series of vigorous, intensive, two-day meetings held in each section of the country during early 1959, we exposed every Pepsi Bottler in the United States to a philosophy of informed, judicious expansionism in his use of advertising. Bottler investment in advertising, as our own, rose to the highest in history.

The year was not without its loss; in April came the unexpected and tragic death of the beloved Chairman of our Board of Directors, Alfred N. Steele. His passing occasioned the deepest sorrow among his thousands of admiring friends both in and out of the industry.

The following pages constitute a report to you on operations and results of 1959; prospects of continued growth are encouragingly bright.

Herbert L. Barnet, *President and Chief Executive Officer*

The new Pepsi-Cola Company World Headquarters at 500 Park Avenue in New York City takes its place among the finest business homes of the world. The most up-to-date architectural refinements endow the building with a jewel-like quality, distinguished even on Park Avenue.

Sales, Income, and Dividends

Both at home and overseas, reported case sales were the highest in history, growing at a rate which exceeded that of the industry as a whole. They were 182 per cent ahead of 1950, when present management was instituted, and 188 per cent ahead of 1949. Though population growth is always important to us, over the past decade United States population increase was only 15 per cent in the face of our sales growth of 182 per cent. It is clear, therefore, that our growth has been basically the increase in per capita sales.

In 1959 more than 400 plants in the United States reached the highest per capita in their history; 70 of them sold more than one million cases each, as compared with 62 who did so in 1958 and 13 in 1950.

Earnings

Earnings for 1959 *before* provisions for taxes and foreign activities were \$30,194,360 as compared with earnings before taxes of \$23,989,647 as reported in 1958.

Federal and foreign taxes on 1959 earnings were \$14,830,000 compared with \$11,650,000 as reported in 1958. Earnings *after* provisions for taxes and foreign activities in 1959 were \$13,873,843 compared with \$11,547,954 after taxes as reported in 1958.

In addition, the Company held in reserve and did not include as earnings for 1959 or 1958 certain income of foreign subsidiaries which in years prior to 1958 it had been the custom to report as earnings. The provision for this reserve for the year of 1958 amounted to \$791,693 or 13 cents per share on stock outstanding at the end of 1958. Provision for this reserve for the year of 1959 amounted to \$1,490,517 or another 23 cents per share on stock outstanding at the end of 1959. Had this amount for 1959 been reported as earnings, the earnings per share of capital stock in 1959 would therefore have been \$2.40 per share instead of the sum of \$2.17 per share as reported under the present policy.

Earnings Per Share of Capital Stock

1950	\$.22	1955	\$1.60
1951	.46	1956	1.50
1952	.68	1957	1.61
1953	.95	1958	1.88
1954	1.07	1959	2.17

Dividends

During the first three quarters of 1959 the Board of Directors continued to authorize quarterly dividends of 30 cents per share; for the last quarter the Board authorized

an increase in the quarterly payment to 35 cents a share. The total per share payment for 1959 was therefore \$1.25.

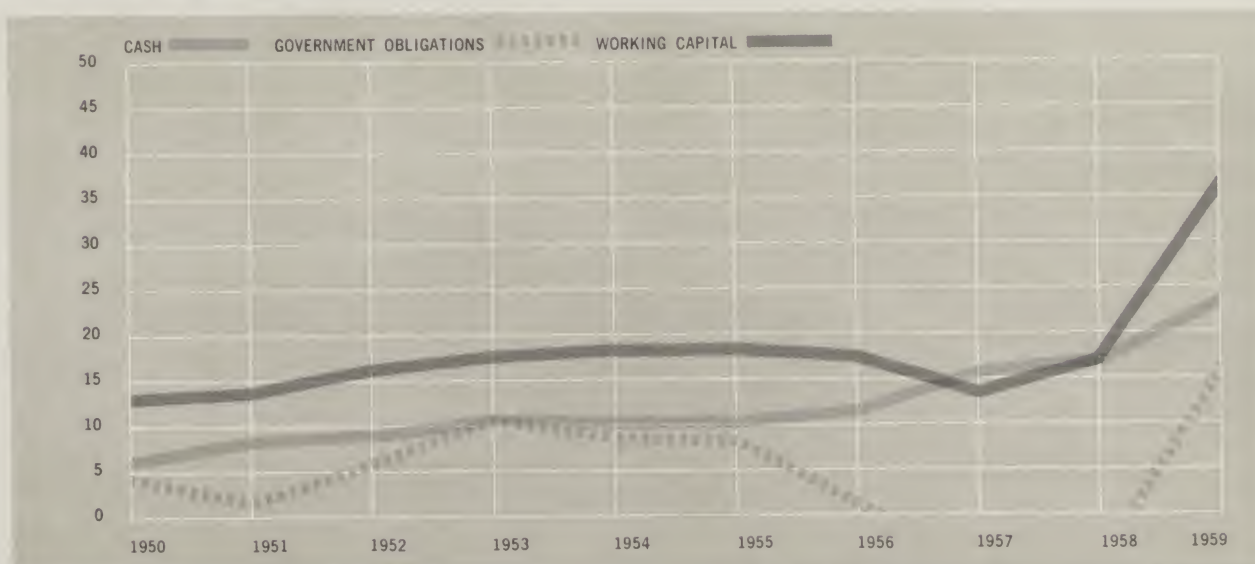
DECLARED	AMOUNT	PAID
February 27, 1959	.30	March 31, 1959
May 7, 1959	.30	June 30, 1959
August 20, 1959	.30	September 30, 1959
November 24, 1959	.35	December 31, 1959



Domestic Case Sales Gains / Per cent Increase Over 1950



Net Income / 1950-1959 / In Millions



Working Capital, Cash and Government Obligations / In Millions



Sales Activities

Since the market for Pepsi includes all people everywhere, everything the public sees in packaging, advertising, promotion, physical equipment, and other instruments of marketing must emphasize qualities appealing to all; our marketing concepts and appeals must keep pace with shifting social trends.

In keeping with this need, during 1959 we refined our marketing themes wherever it was advantageous, introduced a new product into the market, and redesigned certain equipment.

Advertising

Making the biggest advertising investment in our history, we exposed the theme of sociability and the slim, trim leading lady of our advertising to more people than ever before. In print alone we achieved more than 180 million impressions each month. During 1959, Pepsi-Cola again was one of the top color newspaper advertisers in the country.

We increased the number of television spots, and Pepsi Bottlers put more of these spots before the public than ever before in our history. In the period preceding our peak selling season we repeated a triumph of the preceding year by a radio saturation for thirteen weeks on four networks and many independent stations. A record 800,000,000 listener impressions were delivered by this single radio spot campaign.

During the spring in each section of the United States we conducted two-day seminars in advertising for Bottlers. These meetings, called "ADORAMAS," exposed every Pepsi Bottler in the country to factual information and know-how in judicious expansion. Bottler investment in advertising broke all previous records.

Our refreshment song, "Be Sociable," first introduced in May of 1958, achieved a high and easy identification everywhere during 1959.

During the year, in keeping with shifting social trends, we refined our themes to emphasize groups of friendly, modern people in sociable surroundings enjoying the Light Refreshment. These scenes achieved a powerful identity in the public mind with Pepsi-Cola.

Left: The Sociables are about to enjoy a fun-packed hayride as millions of TV viewers see them being sociable with Pepsi. Top right: The merchandising display designed for spring and summer store space gives customers recipes and food ideas for outdoor parties.

Bottom right: The ultra-modern Light Look vendor is a welcome "19th hole" for sociable golfers to enjoy cold Pepsi.



THE SOCIABLES prefer Pepsi



They find fun in everything... turn tasks into wonderful times. How? They call in friends and bring out the Pepsi. It refreshes without filling. You're one of The Sociables. Enjoy light refreshment. Have a Pepsi anywhere—at play, at home or at your favorite soda fountain.

FASHIONS BY JOHN WEITZ

"PEPSI-COLA" AND "PEPSI" ARE TRADEMARKS OF PEPSI-COLA COMPANY, REG. U. S. PAT. OFF.



**Be Sociable,
Have a Pepsi**

Refresh without filling



Left: Magazine advertisements such as this one for April of 1960 were designed to repeat the theme of sociability. Right: "ADORAMA"—the Company's coast-to-coast traveling "seminar" by top company executives presented the latest advertising insights and methods to Pepsi-Cola bottlers.

Identity in Public Affairs

Public participation on many fronts made Pepsi-Cola an integral part of pleasant and memorable experiences for hundreds of thousands of consumers.

At scores of national conventions Pepsi hospitality made new friends among community leaders and tastemakers; we assisted the Junior Chambers of Commerce in their tennis and golf tournaments for young men; we cooperated with many major sporting events of many kinds. A motion picture of the Jaycee National Convention was shown to almost 3,000 audiences.

Nationally and locally our sponsorship of Miss America associated Pepsi with worthy community activities; every winner of a state contest and many runners-up were awarded scholarships from the Company and from Pepsi Bottlers. By year's end more than 500 young girls were being educated in part by funds thus contributed. In addition, Miss America excited large crowds at many personal



Advertising re-emphasizes *The Sociables* getting together and having modern fun with modern Pepsi, whether they are taking a Pepsi break from shopping, home gardening, or enjoying themselves at a barbeque or beach picnic.





appearances, including plant openings, public affairs in dozens of cities, and such spectacular events as the Orange Bowl, Gator Bowl, Cherry Blossom Festival, Cotton Picking Festival, state fairs, and city-wide open houses at Pepsi bottling plants.

More than 40,000 people each week visited your Company's exhibit in Grand Central Station in New York City, presented in conjunction with the exhibit of Merrill Lynch, Pierce, Fenner and Smith Inc., during July and August.

Many promotions conducted jointly by your Company and by Pepsi Bottlers increased sales and opened many new outlets. Notable among these were the theater promotion in connection with the telecast of the "Oscar" awards, the "Tall Texan" promotion, the organizing of many junior bowling leagues, and a service station promotion for the mobile market which placed several thousand new vending machines in these outlets.

Two new motion pictures for use by public groups were produced.

Merchandising

During the year a new Merchandising Department was organized to develop strong in-store promotion for increased display space for Pepsi. The Beverage Merchandising Service, developed in 1959 for use by bottling plant salesmen, helps outlets allocate merchandising space to Pepsi-Cola for mutual profit.

Right: Miss America of 1960, Lynda Lee Mead, enjoys a Pepsi at the studio. State winners and finalists in the Miss America Pageant of 1959 were again awarded Pepsi-Cola scholarships. Left: Our Company assisted the nation's Junior Chambers of Commerce in their sports programs for youth, such as this National Jaycee Junior Golf Championship.



Mobile Market

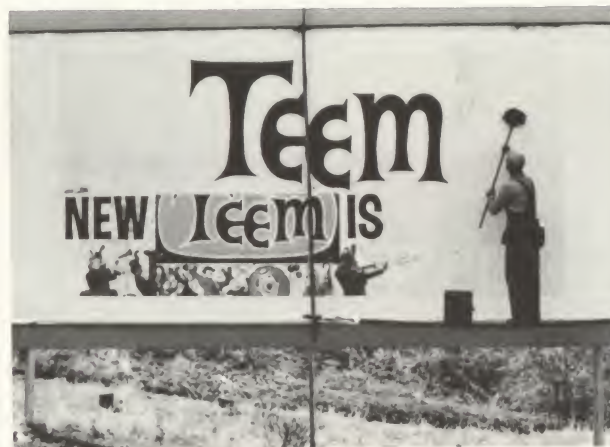
Special attention was given to materials which increase sales in those outlets where customers with automobiles purchase by the case, such as service stations. The Pepsi Service Center, an attractive case display and sales shed that can be locked up after business hours, was designed for use in case sales outlets.

Packaging

The new swirl design for bottles, first announced in May of 1958, had been introduced into more than 90 per cent of Pepsi franchises by the end of 1959, and was rapidly replacing the older design everywhere.

The 6½-ounce swirl bottle, particularly adaptable for on-premise consumption by those who prefer the smaller size, was by year's end on sale in 220 franchises, an increase of 33 over the preceding year. Twelve-ounce and ten-ounce sizes continued to be most popular with consumers.

The eye-catching carton design was retained without change, but the modular carton display stands, first introduced in 1958, came into widespread and general use in 1959 all across the country. First introduced by your Company, these stands of varying sizes, many carrying illuminated signs calling attention to the Pepsi display, permit the creation of a self-contained beverage department in any outlet.



Premix

Sales through premix equipment (a process by which all ingredients are mixed in the bottling plant and sealed in large containers for delivery to outlets) leapt upward more than 50 per cent over those of the preceding year.

The convenient ease of this process, together with its protection of the high quality in the dispensed product, makes it particularly attractive under certain situations and assures continuing growth.

New Product

In April, 1959, your Company introduced into the American market a new drink with a lemon-lime flavor, named TEEM. The method of introduction was local—by individual franchise—rather than national.

In certain sections of the country this taste had proved so popular that by year's end TEEM was on sale in 23 different franchises, and its growth was notable throughout. During the months ahead the product will be continuously introduced into other franchises until ultimately it will be available everywhere in the nation where popularity of the taste makes it profitable.

The bottle for TEEM was designed to resemble the swirl design for Pepsi-Cola, and is available in the same variety of sizes. The introduction of the product was preceded by some four years of laboratory development and market testing.



The Light Look

Distinguished by trimness, modernity, and eye-catching smartness, vending equipment for Pepsi-Cola continued its high popularity and increased sale with dealers and consumers. Vending of soft drinks through automatic equipment accounts for a sizeable percentage of total industry sales and Pepsi's share of this vending market in bottle, premix, and post-mix equipment has increased tremendously.

During the year vending machines for Pepsi were redesigned to be illuminated and to permit the use of interchangeable privilege panels for the dealer. These should begin to appear in outlets during 1960.

In addition a new and particularly attractive fountain dispenser (see picture, left) and a sturdy and handsome beverage case made of aluminum were designed, tested, and prepared for introduction early in 1960.

Company-Owned Plants

Pepsi-Cola Metropolitan Bottling Company, Inc., a wholly-owned subsidiary, operates a group of Pepsi bottling plants in 18 major cities containing almost 20 per cent of the national population.

In cooperation with neighboring Pepsi-Cola Bottlers, Metropolitan originated several area advertising programs to extend and strengthen advertising coverage in metropolitan areas.

In September, 1959, Pepsi-Cola Company acquired all the stock of a corporation holding the Pepsi franchise for almost half the geographical area and more than 90 per cent of the population of the State of Michigan.

Broadened Market

Thus, marketing and sales activities were stepped up in all segments. New markets, new equipment, new promotions, new merchandising tools and new product development were part of the company's constantly progressing marketing plan.

These and many other sales stimuli further increased the ready welcome of the product and enhanced the product image to a continuously enlarging public.

Top left: The new illuminated Pepsi fountain dispenser, distinguished by eye-catching design, gives accent to growth in fountain sales.

Bottom: The latest Light Look vendor for Pepsi is the first in the industry with an illuminated transparency panel.



1959 Plant Expansion

Forty-five new bottling plants were completed by Pepsi Bottlers during 1959. Expansion within existing plants in square feet was more than double that of the previous year. New bottling lines ordered also set a record in Pepsi-Cola history.

In the United States, new plants opened in Anchorage, Alaska; Oakland, California; Melbourne, Florida; Seymour, Indiana; Brewer, Maine; Rochester, Minnesota; Kansas City, Missouri; Kalispell and Missoula, Montana; Omaha, Nebraska; Las Vegas, Nevada; Albuquerque and Gallup, New Mexico; Rocky Mount, North Carolina; Canton, Ohio; Franklin, Pennsylvania; Watertown, South Dakota; Cookeville, Tennessee; Lynchburg, Virginia; Charleston and Petersburg, West Virginia; Eau Claire, Fox Lake, and Park Falls, all in Wisconsin.

Outside the United States and Canada, 21 new plants were opened during 1959 in 12 different countries, as follows:

San Pedro Sula, Honduras; Toluca and Mazatlan, Mexico; Christchurch and Auckland, New Zealand; Aachen, Hamburg, and Kassel, Germany; Accra, Ghana; Isfahan, Mashhad, and Resht, Iran; Tigrilo, Venezuela; Nicosia, Cyprus; Palma de Mallorca (Balearic Islands) and Vigo, Spain; Hobart, Australia; Valparaiso, Santiago and Antofagasta in Chile, and Bridgetown, Barbados.



The International Story

As 1959 drew to a close, Pepsi-Cola International, Ltd., responsible for development outside the United States and Canada, opened its 200th bottling plant—in Valparaíso, Chile. With this, Pepsi-Cola was then available to some 300 million people in 80 countries overseas, on all continents of the world.

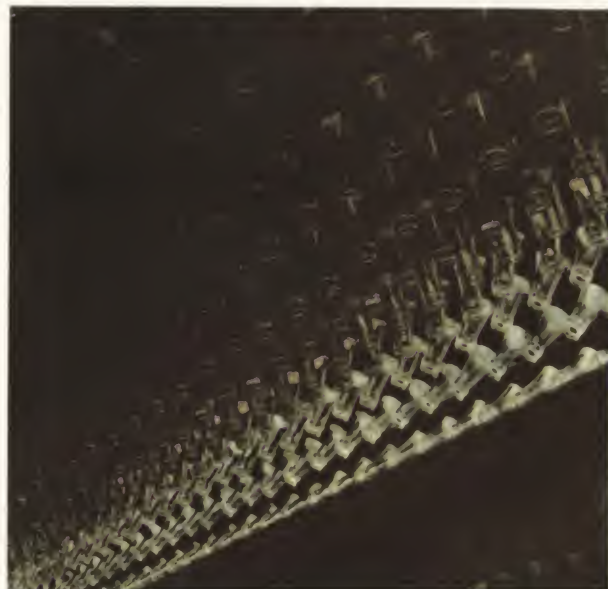
Growth has been so rapid over the past decade that sales in these ten years have increased nearly five-fold, and by contrast in 1950 there were only 67 plants in 31 countries. The 21 new openings during 1959 set a record for inaugurals in one year, and brought Pepsi for the first time into five countries (New Zealand, Chile, Ghana, Cyprus, and Barbados).

Another record year is planned for 1960 with over 30 plants scheduled to open in 25 different countries; among new countries where Pepsi will be introduced for the first time is Nigeria, where three or more plants are scheduled for opening in 1960.

Despite this rapid growth, future prospects appear bright in view of the fact that existing markets where Pepsi is on sale overseas represent less than 15 per cent of the world's total markets.



Whether it's in Germany (above left), Iran (far left), Southern Rhodesia (left), Japan or the Philippines (right) . . . "The Refreshment of Friendship," as the Pepsi theme is generally used abroad, is now available to some 300,000,000 people in 80 foreign countries and territories.



Manufacturing, Research, and Technical Services

Maintenance of the quality which has earned Pepsi the highest reputation in its field continued through vigilant supervision and endless research. Through chemical analyses, schools, educational manuals, visits of traveling laboratories, and supervision of all productive operations, this effective control of the highest quality remained constant.

During the year four new production schools and the first in a series of production clinics were conducted for approximately 225 responsible production supervisors from Pepsi bottling plants.

A Quality Control Manual, measuring standards of production for Bottlers and Company personnel, was prepared and made ready for distribution early in 1960.

Diligent research on all aspects of manufacture and production continued. One of the new products developed in this research, TEEM, came into the market in 1959. Research and testing of other new products was concluded, and they were made ready for marketing in early 1960.

Within the United States our manufacturing facilities were enlarged on both coasts. In the New York plant a new syrup room and the largest tanks in the beverage industry doubled the capacity for finished syrup. In Oakland, California, an addition to the building also doubled the manufacturing and storage space.

Overseas, we began operation of a new concentrate plant in Spain to serve Pepsi-Cola Bottlers in that country, purchased land and began plans for a new concentrate plant in Mexico, and planned construction to begin in early 1960 of a concentrate plant to serve bottlers in Kenya, Uganda, Tanganyika, and Mauritius.

Top: Pepsi-Cola's "electric eye" inspects the finished product on the bottling line, electronically insuring protection of the highest standards of quality.

Center: Leaving the washer, above, these bottles have been automatically scoured, soaked in chemical baths, and rinsed during a 20-minute sterilization process.

Left: Lab technicians take periodic samples of Pepsi off the bottling line for various chemical analyses to insure exact standards of purity, flavor and content.

Right: This automatic brix analyzer performs in a matter of minutes a complex measurement for sugar content. Every Pepsi bottling plant in the world undergoes constant sampling for various quality control tests.



Administration

In December your Company completed and occupied its New World Headquarters at 500 Park Avenue in New York City for official dedication in February, 1960. A superbly designed, eleven story building in the contemporary architecture of efficient simplicity, it is a striking addition to Park Avenue.

On April 18 the sudden, unexpected, and tragic death of the beloved and widely honored Chairman of the Board of Directors and Chief Executive Officer of the Company, Alfred N. Steele, who had organized the direction of the Company's growth over a period of years, occasioned the deepest sorrow among his thousands of friends both inside and outside the industry.

Following his death, the Board of Directors amended the by-laws to eliminate the office of Chairman, and designated Herbert L. Barnet, who had been President of the Company since July of 1955, as Chief Executive Officer.

To fill the vacancy on the Board created by Mr. Steele's death, Mrs. Joan Crawford Steele was elected to the Board at the annual meeting of stockholders in May.

The Board elected Raymond Mock Vice-President for the Central Division.

Ten-year comparison

Pepsi-Cola Company and Consolidated Subsidiaries

Financial Results

	Gross Profit on Sales	Income Before Taxes*	Net Income	Earnings Per Share	Dividends	Dividends Per Share	Shares Outstanding
1959	\$113,577,759	\$30,194,360	\$13,873,843	\$2.17	\$7,833,818	\$1.25	6,384,415
1958	98,372,489	23,989,647	11,547,954	1.88	7,238,496	1.20	6,138,755
1957	85,564,391	19,669,675	9,559,675	1.61	6,220,528	1.05	5,926,205
1956	69,139,792	17,884,787	8,884,787	1.50	5,915,830	1.00	5,918,655
1955	62,823,327	18,880,766	9,456,766	1.60	5,897,090	1.00	5,909,005
1954	51,787,727	12,703,690	6,212,690	1.07	3,769,493	.65	5,813,155
1953	45,419,752	11,384,412	5,476,882	.95	2,871,752	.50	5,743,505
1952	35,022,415	7,834,126	3,880,362	.68	2,010,227	.35	5,743,505
1951	30,216,383	4,192,890	2,632,181	.46			5,736,005
1950	23,765,879	2,544,610	1,271,919	.22			5,736,005

*and before Reserve for Foreign Activities in 1959 and 1958.

Financial Position

	Current Assets	Current Liabilities	Working Capital	Fixed Assets —Net	Other Assets	Long Term Indebtedness and Customers' Deposits	Reserve for Foreign Activities	Stockholders' Equity*	Book Value Per Share
1959	\$58,681,888	\$23,430,599	\$35,251,289	\$37,742,852	\$12,712,000	\$22,516,154	\$4,595,467	\$58,594,520	\$9.18
1958	36,252,272	19,019,387	17,232,885	34,049,468	13,637,942	12,804,641	3,104,950	49,010,704	7.98
1957	33,748,837	19,396,554	14,352,283	31,839,309	11,777,999	12,394,706		45,574,885	7.69
1956	32,018,582	14,566,258	17,452,324	24,323,023	6,390,925	6,002,051		42,164,221	7.12
1955	32,803,026	14,300,372	18,502,654	20,103,341	5,180,719	4,692,600		39,094,114	6.62
1954	29,309,566	11,227,522	18,082,044	17,172,325	4,305,246	4,939,642		34,619,973	5.96
1953	29,850,407	11,854,418	17,995,989	14,758,730	3,963,617	5,111,280		31,607,056	5.50
1952	23,459,670	7,048,898	16,410,772	13,980,506	3,720,446	5,109,798		29,001,926	5.05
1951	18,538,797	4,830,536	13,708,261	15,044,434	3,374,015	5,309,341		26,817,369	4.68
1950	17,248,807	3,784,171	13,464,636	10,939,904	3,171,161	5,221,898		22,353,803	3.90

*After reduction attributable to Reserve for Foreign Activities in 1959 and 1958.

Accountants' Opinion

Haskins & Sells

Certified Public Accountants

Two Broadway
New York 4

The Directors and Stockholders of Pepsi-Cola Company:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1959 and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated income and surplus present fairly the financial position of the companies at December 31, 1959 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

March 14, 1960

Consolidated Balance Sheet *December 31, 1959 and 1958*

Pepsi-Cola Company and Consolidated Subsidiaries

Assets	1959	1958
CURRENT ASSETS:		
Cash	\$24,370,997	\$17,698,176
United States Government securities—at cost (approximately market)	15,345,460	
Notes and accounts receivable (less allowance for doubtful receivables—1959, \$750,648; 1958, \$939,253)	7,948,050	9,554,315
Inventories—at cost, not in excess of market:		
Finished, in-process, raw materials and supplies	9,730,673	7,515,922
Vending equipment held for resale	1,286,708	1,483,859
Total current assets	58,681,888	36,252,272
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	3,297,808	3,197,694
Investment in and advances to subsidiary not consolidated	494,482	523,700
Other	808,257	427,319
Total miscellaneous assets	4,600,547	4,148,713
PROPERTY, PLANT AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1959, \$27,019,715; 1958, \$22,112,231)	29,686,014	25,731,442
Bottles and cases on hand and with trade (principally at estimated depreciated values)	8,056,838	8,318,026
Total property, plant and equipment—net	37,742,852	34,049,468
DEFERRED CHARGES:		
Prepaid insurance, taxes, etc.	1,145,419	973,987
Advertising materials and expenses	2,456,986	3,797,768
Other	496,941	222,149
Total deferred charges	4,099,346	4,993,904
TRADEMARKS, FORMULAS AND GOODWILL (less amortization)	4,012,107	4,495,325
TOTAL	\$109,136,740	\$83,939,682

Reference is made to the accompanying Notes to Financial Statements starting at Page 30.

Consolidated Balance Sheet *December 31, 1959 and 1958*

Pepsi-Cola Company and Consolidated Subsidiaries

Liabilities	1959	1958
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term indebtedness)	\$ 1,345,177	\$ 1,852,329
Accounts payable and accrued	11,030,383	6,458,296
Accrued taxes:		
United States and foreign income taxes	8,947,690	9,135,673
Other taxes	2,107,349	1,573,089
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	23,430,599	19,019,387
OTHER LIABILITIES:		
Long-term indebtedness (current installments included above):		
5½% notes (payable, including \$2,000,000 to be borrowed on December 1, 1960, in annual installments of \$1,250,000 from 1962 to 1973; the balance payable in 1974)	18,000,000	
Other notes payable	353,240	8,968,541
Customers' deposits on bottles and cases	4,162,914	3,836,100
Total other liabilities	22,516,154	12,804,641
RESERVE FOR FOREIGN ACTIVITIES	4,595,467	3,104,950
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding at December 31, 1959, 6,384,415 shares	2,128,138	2,046,252
Capital surplus	8,360,351	7,312,871
Earned surplus	48,106,031	39,651,581
Total capital stock and surplus	58,594,520	49,010,704
TOTAL	\$109,136,740	\$83,939,682

Reference is made to the accompanying Notes to Financial Statements starting at Page 30.

Consolidated Income *for the years ended December 31, 1959 and 1958*

Pepsi-Cola Company and Consolidated Subsidiaries

	1959	1958
Net Sales	\$157,769,109	\$142,217,863
Cost of Sales	44,191,350	40,710,669
Gross Profit on Sales	113,577,759	101,507,194
Advertising, Selling, Shipping, General and Administrative Expenses	82,721,175	75,885,033
Profit From Operations	30,856,584	25,622,161
Other Income	1,312,187	1,090,613
	32,168,771	26,712,774
Income Charges (including interest on indebtedness— 1959, \$979,212; 1958, \$635,984)	1,974,411	1,874,074
Income Before Provisions for Income Taxes and Foreign Activities	30,194,360	24,838,700
Provisions for United States and Foreign Income Taxes:		
United States	10,430,000	8,761,000
Foreign	4,400,000	3,330,000
Total	14,830,000	12,091,000
Income Before Provision for Reserve for Foreign Activities	15,364,360	12,747,700
Provision for Reserve for Foreign Activities	1,490,517	791,693
Net Income	\$ 13,873,843	\$ 11,956,007

Reference is made to the accompanying Notes to Financial Statements starting at Page 30.

Consolidated Surplus *for the year ended December 31, 1959*

Pepsi-Cola Company and Consolidated Subsidiaries

Earned Surplus

Balance, January 1, 1959		\$39,651,581
Balance, January 1, 1959 of Dossin's Food Products		2,611,925
		<hr/> 42,263,506
Net income for the year		13,873,843
		<hr/> 56,137,349
Less dividends paid—cash:		
Pepsi-Cola Company (\$1.25 a share)	\$7,833,818	
Dossin's Food Products before pooling of interests	197,500	8,031,318
		<hr/> \$48,106,031

Capital Surplus

Balance, January 1, 1959		\$ 7,312,871
Excess of the aggregate par value of capital stock of Dossin's Food Products outstanding over the par value of 200,000 shares of Pepsi-Cola capital stock issued in exchange		133,333
Excess of proceeds over par value of 45,660 shares of capital stock issued under stock option plans		930,535
		<hr/> 8,376,739
Less expenses incidental to pooling of interests		16,388
Balance, December 31, 1959		<hr/> \$ 8,360,351

Reference is made to the accompanying Notes to Financial Statements starting at Page 30.

1. The consolidated financial statements include the accounts of all active subsidiaries except the British subsidiary (which has been excluded since 1950).

During 1959, Dossin's Food Products was combined with Pepsi-Cola Company, such combination being a pooling of interests. Accordingly, the accompanying statement of consolidated income includes the results of the 1959 operations of the combined companies for the entire year; and the statement for 1958 is presented, for comparative purposes, on the same basis.

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

The net current assets, total assets, and total liabilities of consolidated foreign subsidiaries (other than Canadian subsidiaries), stated in terms of United States dollars, were \$4,205,216, \$18,256,191 and \$4,657,475, respectively, at December 31, 1959. The net assets of the British subsidiary (not consolidated) were \$697,286.

Included in the consolidated balance sheet are assets of \$1,989,401 and liabilities of \$313,389 attributable to the companies' operations in Cuba.

2. It is the policy of the Company to exclude from consolidated net income and consolidated earned surplus the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities. The provision for each year represents such subsidiaries' unremitted profits (before devaluation charges), less (a) such portion of individual company's deficits at the beginning of the year as did not exceed related profits for the year, (b) applicable charges for amortization of goodwill, and (c) losses arising from devaluation of foreign currencies.

3. The federal income tax returns of the Company and domestic subsidiaries and of Canadian subsidiaries have been examined and settled through the year 1956.

4. The loan agreements relating to the 5½% notes payable contain various restrictions including provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital stock. Of the consolidated earned surplus at December 31, 1959, approximately \$13,000,000 was free of restriction.

5. During 1952 and 1956 the stockholders approved the adoption of Stock Option Plans under which 400,000 shares of the Company's capital stock were made available for the granting of options to officers and key employees. On August 20, 1959, the Board of Directors adopted, subject to the approval of the stockholders, another Plan under

which an additional 200,000 shares were made available for options (options for 92,500 of these shares were granted). The following is a summary of the status of the options during 1959:

	Number of Shares	Option Value	Market Valuation at Dates of Grant
Shares under option at December 31, 1958	198,200	\$4,190,063	\$4,482,238
Options granted during year	115,600	3,771,451	3,771,451
	313,800	7,961,514	8,253,689
Options exercised during year	45,660	945,755	1,008,514
Options lapsed during year	5,050	108,401	114,794
	50,710	1,054,156	1,123,308
Shares under option at December 31, 1959	263,090	\$6,907,358	\$7,130,381

The above summary does not include an option for 75,000 shares granted to Mr. A. N. Steele in 1958, which became ineffective by reason of his death in 1959.

Options granted under the 1952 and 1956 Plans are to be at no less than 85% of the highest market price on the date of grant and are exercisable within five years from the respective dates of grants. Options granted under the Plan adopted by the Board in 1959 are to be at 100% of the highest market price on the date of grant and are exercisable within eight years.

At December 31, 1958, 19,000 shares were available for grants; at December 31, 1959, 108,450 shares were available for grants, subject to the approval of the stockholders.

In February of 1960, a stockholder of the Company instituted actions on identical complaints on behalf of the Company in the Delaware Chancery Court and later the New York Supreme Court, naming as defendants the present and certain past directors of the Company, the Executors of the Estate of Alfred N. Steele and the Company. The complaints allege that stock options issued on September 22, 1955 under the Company's 1955 Stock Option Plan to Mr. Steele for 30,000 shares, to Herbert L. Barnet for 10,000 shares and to William B. Forsythe for 2,500 shares were granted without valid or sufficient consideration; that aggregate death benefits payable to Mr. Steele's widow pursuant to his employment contract dated December 12, 1958 are excessive; and that at various times during the preceding three years, Mr. Steele caused the Company to pay to him or for his account or benefit large sums of money without consideration. The relief sought is an injunction against exercise of said options, the impressing of a trust on stock acquired under said options or the proceeds thereof and an accounting by the individual defendants of any damages and profits.

6. The Company and its consolidated subsidiaries are lessees under 44 leases having unexpired terms of more than three years which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is approximately \$1,800,000.

7. At December 31, 1959 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to various franchised Bottlers, aggregating approximately \$4,000,000. The Company has other guarantees of \$800,000.

8. Certain vending equipment acquired by Bottlers is purchased by them on the installment basis; unpaid balances on such acquisitions amounted to approximately \$9,500,000 at December 31, 1959. The Company has agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance; purchases by the Company under such agreements have been immaterial.

9. The provisions for depreciation and amortization amounted to \$5,300,000 in 1959, and to \$5,000,000 in 1958 on a comparable basis.

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Division Offices

CENTRAL

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EASTERN

1012 14th Street, N.W.
Washington 5, D.C.

SOUTHERN

Vaughan Building
Dallas 1, Texas

WESTERN

223 South Beverly Drive
Beverly Hills, California

Regional Offices

1401 Peachtree Building
Atlanta 9, Georgia

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Chicago 1, Illinois

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Columbus 15, Ohio

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Dallas 1, Texas

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